

LEBEC COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2021**

**LEBEC COUNTY WATER DISTRICT
LEBEC, CALIFORNIA
JUNE 30, 2021**

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**LEBEC COUNTY WATER DISTRICT
ORGANIZATION
JUNE 30, 2021**

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rick Puckett	President	December 2024
Nic Wenderoth	Vice President	December 2022
Ronald Benjamin	Secretary/Treasurer	December 2024
Chris Guadarrama	Director	December 2024
Wendy Watson	Director	December 2022

DISTRICT PERSONNEL

<u>NAME</u>	<u>TITLE</u>
Daniel Garcia	Lead Water Operator
Jessica Carroll	General Manager/Clerk of the Board
William Adame	Water Operator

FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lebec County Water District
Lebec, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Lebec County Water District (the District) as of and for the year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2021, and the changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Operating Revenues, Schedule of Operating Expenses, and budgetary comparison information are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Revenues, Schedule of Operating Expenses, and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Revenues, Schedule of Operating Expenses, and budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
February 15, 2022

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
JUNE 30, 2021**

INTRODUCTION

The management's discussion and analysis section of the Lebec County Water District's (the District) annual financial report provides a narrative overview of the District's financial activities and financial position for the year ended June 30, 2021. This information should be read in conjunction with the District's basic financial statements and footnotes which follows this section.

PROFILE OF THE DISTRICT

The District was formed in 1968. A Board of Directors composed of five members governs the District. The District provides water to commercial and residential customers within the District's boundaries.

FINANCIAL HIGHLIGHTS

The key financial highlights for the year ended June 30, 2021, are as follows:

- Total net position of the District, the amount by which assets exceed liabilities, was \$1,192,463 as of June 30, 2021, and includes:
 - \$501,053 is the net investment in capital assets.
 - \$691,410 is unrestricted and available to meet the ongoing needs of the District.
- The total net position decreased by \$29,136 as compared to prior year's increase of \$25,484. The decrease in net position is related to a decrease in revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Readers should evaluate the financial statements with the accompanying Notes. The Notes to the Basic Financial Statements are an integral part of the financial statements and provide useful explanations and detailed information on the financial statements. Management's Discussion and Analysis precedes the financial statements to provide required supplementary information to the financial statements.

REQUIRED FINANCIAL STATEMENTS

The *Statement of Net Position* states the financial position of the District at June 30, 2021. This statement includes the District's assets and liabilities, with the difference between the two reported as net position. The list of assets and liabilities are in order of their liquidity. Therefore, assets readily convertible to cash appear first.

The *Statement of Revenues, Expenses, and Changes in Net Position* accounts for the annual results of operations. This statement shows the current year's revenues, expenses, capital contributions, and also calculates the change in net position. The sum of the prior year's net position balance and the current year's change in net position equals the ending net position balance. The same ending net position balance appears on the *Statement of Net Position*. Over time, changes in net position serve as a key indicator of the District's financial position.

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

Both the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position* are shown using the accrual basis of accounting. This means revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

By contrast, the *Statement of Cash Flows* presents information on changes in cash and cash equivalents during the year. The statement categorizes changes by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. From this statement the reader can obtain information on the sources and uses of the District's cash.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 17 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, the District also presents a budgetary comparison schedule as part of required supplementary information. The budgetary comparison schedule is presented on a U.S. GAAP basis in this section. The schedule is intended to demonstrate the District's compliance with the legally adopted and final amended budget.

The required supplementary information, budget to actual, can be found on page 18 of this report.

Net Position – The following is a condensed version of the Statement of Net Position for June 30, 2021, compared to June 30, 2020.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Assets:				
Current Assets	\$ 716,476	\$ 817,839	\$ (101,363)	-12%
Noncurrent Assets, Capital Assets, Net	<u>501,053</u>	<u>456,610</u>	<u>44,443</u>	<u>10%</u>
Total Assets	<u><u>\$ 1,217,529</u></u>	<u><u>\$ 1,274,449</u></u>	<u><u>\$ (56,920)</u></u>	<u><u>-4%</u></u>
Liabilities:				
Current Liabilities	\$ 25,066	\$ 22,250	\$ 2,816	13%
Long-Term Liabilities	<u>-</u>	<u>30,600</u>	<u>(30,600)</u>	<u>-100%</u>
Total Liabilities	<u>25,066</u>	<u>52,850</u>	<u>(27,784)</u>	<u>-53%</u>
Net Position:				
Net Investment in Capital Assets	501,053	456,610	44,443	10%
Unrestricted	<u>691,410</u>	<u>764,989</u>	<u>(73,579)</u>	<u>-10%</u>
Total Net Position	<u>1,192,463</u>	<u>1,221,599</u>	<u>(29,136)</u>	<u>-2%</u>
Total Liabilities and Net Position	<u><u>\$ 1,217,529</u></u>	<u><u>\$ 1,274,449</u></u>	<u><u>\$ (56,920)</u></u>	<u><u>-4%</u></u>

Total net position decreased \$29,136 or 2% from the prior year. Overall, the District's financial health is steady, which is shown by the District's significant cash balances.

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

Changes in Net Position – The results of this year's operations as a whole are reported in the Statement of Revenues, Expenses, and Changes in Net Position. The following is a condensed version of the Statement of Revenues, Expenses, and Changes in Net Position for June 30, 2021, compared to June 30, 2020.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	Dollar Increase (Decrease)	Percent
Revenues:				
Commercial Water Sales	\$ 196,715	\$ 217,332	\$ (20,617)	-9%
Residential Water Sales	191,696	180,237	11,459	6%
Surplus Water Sales	15,327	21,910	(6,583)	-30%
Property Taxes	50,827	46,430	4,397	9%
Grant Revenue	-	145,564	(145,564)	-100%
Other	43,069	10,751	32,318	301%
	<u>497,634</u>	<u>622,224</u>	<u>(124,590)</u>	<u>-20%</u>
Total Revenues				
Expenses	<u>526,770</u>	<u>596,740</u>	<u>(69,970)</u>	<u>-12%</u>
Change in Net Position	<u>\$ (29,136)</u>	<u>\$ 25,484</u>	<u>\$ (54,620)</u>	<u>-214%</u>

Revenues – For the year ended June 30, 2021, revenues total \$497,634, a decrease of \$124,590 or 20% over prior year. The decrease was due to no grant revenues in the current year.

Expenses – For the year ended June 30, 2021, expenses total \$526,770, a decrease of \$69,970 or 12% over prior year. The decrease was due to a decrease in grant expense as there was not any grant funding received in current year.

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

CAPITAL ASSETS

At June 30, 2021, the District's capital assets, before accumulated depreciation, were \$1,544,763.

The following is a summary of the capital assets, net of accumulated depreciation, for the year ended June 30, 2021:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Land	\$ 15,521	\$ 15,521	\$ -	0%
Transmission and Distribution	1,078,875	1,020,470	58,405	6%
Source of Supplies	164,874	162,288	2,586	2%
General Plant	201,451	161,012	40,439	25%
Pumping Equipment	<u>84,042</u>	<u>80,109</u>	<u>3,933</u>	<u>5%</u>
Total Capital Assets	1,544,763	1,439,400	105,363	7%
Less Accumulated Depreciation	<u>(1,043,710)</u>	<u>(982,790)</u>	<u>(60,920)</u>	<u>6%</u>
Total Assets, Net of Depreciation	<u><u>\$ 501,053</u></u>	<u><u>\$ 456,610</u></u>	<u><u>\$ 44,443</u></u>	<u><u>10%</u></u>

BUDGET TO ACTUAL

The District collected \$14,452 less in operating revenues as compared with the budget. Actual revenue figures may vary from what was estimated in the budget. Operating expenses were budgeted at \$480,245, and actual operating expenses were over budget by \$46,456. The budget versus actual comparison can be found on page 18.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District remains dependent on residential and commercial water sales which are the District's primary source of revenue. This revenue source is economically sensitive to water prices and subject to slowdowns in the economy and legislative appropriations.

The District is committed to maintaining a cash reserve for operations in the amount of \$120,000 each year, both for financial stability and in anticipation of the capital and ongoing operational needs of the District. For the year ended June 30 2022, budgeted expenses are balanced with anticipated revenues \$476,909.

The budget for the year ended June 30, 2022, includes:

- Expect an increase in payroll and payroll related expenses as a result of pay raises. Total payroll expenses are budgeted to increase by approximately \$4,000.
- Expect a decrease in equipment rental expense as a result of a decreased need for equipment in the District office. Total equipment rental expenses are budgeted to decrease by \$14,000.
- Expect an increase in professional fees due to inflation. Total professional fees are budgeted to increase by approximately \$3,000.

**LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

CONTACTING THE DISTRICT

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens, and customers with an overview of the Lebec County Water District's finances and to demonstrate its accountability for funds received.

For additional information about this report, please contact:

Jessica Carroll, General Manager
323 Frazier Mountain Park Road
Lebec, California 93243

BASIC FINANCIAL STATEMENTS

**LEBEC COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	645,340
Accounts Receivable		33,141
Prepaid Expenses		789
Deposits		1,000
Inventory		36,206
		36,206

Total Current Assets		716,476
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NONCURRENT ASSETS

Capital Assets Not Being Depreciated		15,521
Depreciable Capital Assets, Net		485,532
		485,532

Total Noncurrent Assets		501,053
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Total Assets		1,217,529
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable		920
Other Current Liabilities		24,146
		24,146

Total Current Liabilities		25,066
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NET POSITION

NET POSITION

Net Investment in Capital Assets		501,053
Unrestricted		691,410
		691,410

Total Net Position		1,192,463
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Total Liabilities and Net Position		\$ 1,217,529
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See accompanying notes to the basic financial statements.

**LEBEC COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021**

OPERATING REVENUES	
Water Revenues	\$ 403,738
Fees and Permits	12,407
	416,145
Total Operating Revenues	416,145
OPERATING EXPENSES	
General and Administrative	199,501
Transmission and Distribution	212,804
Depreciation Expense	60,920
Pumping	53,476
	526,701
Total Operating Expenses	526,701
Operating Loss	(110,556)
NONOPERATING REVENUES	
Property Tax Revenue	50,827
PPP Loan Forgiveness	30,600
Interest Income	62
	81,489
Total Nonoperating Revenues	81,489
NONOPERATING EXPENSES	
Interest Expense	69
	69
Total Nonoperating Expenses	69
Change in Net Position	(29,136)
Net Position - Beginning of Year	1,221,599
Net Position - End of Year	\$ 1,192,463

See accompanying notes to the basic financial statements.

**LEBEC COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 427,557
Cash Paid to Suppliers	(250,356)
Cash Paid to Employees	<u>(216,478)</u>
Net Cash Used by Operating Activities	<u>(39,277)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Paid for Interest Expense	(69)
Cash Received from Property Taxes	<u>50,827</u>
Net Cash Provided by Noncapital Financing Activities	<u>50,758</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Capital Assets	(105,363)
Cash Receipt from Interest Income	<u>62</u>
Net Cash Used by Investing Activities	<u>(105,301)</u>
Net Decrease in Cash and Cash Equivalents	<u>(93,820)</u>
Cash and Cash Equivalents - Beginning of Year	<u>739,160</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 645,340</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (110,556)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	60,920
Changes in Assets - (Increase)/Decrease	
Accounts Receivable	11,412
Inventory	(3,080)
Prepaid Expenses	(789)
Changes in Liabilities - Increase/(Decrease)	
Accounts Payable	(7,438)
Other Current Liabilities	<u>10,254</u>
Net Cash Used by Operating Activities	<u><u>\$ (39,277)</u></u>

See accompanying notes to the basic financial statements.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF ACCOUNTING

A. Nature of Operations

The Lebec County Water District (the District) was established by local election held within the boundaries of the proposed district and by resolution of the Kern County Board of Supervisors, effective January 13, 1968, in accordance with the provisions of the County Water District Law, Division 12, Section 30,000 et seq., of the Water Code of the State of California.

The District is governed by a Board of Directors comprised of five members who are registered voters of the District. The term of office for each director is two to four years. The District was formed to provide for the organization and management of water works to be used for the acquisition or construction of water facilities for the distribution and sale of water. The District provides water to customers in Lebec, California.

B. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District reports its activities as an enterprise fund. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles of the District conform to accounting principles generally accepted in the United States of America applicable to government-type organizations. The following is a summary of the District's significant accounting policies:

A. Component Units

Under the provisions of these statements, the District is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments. The District designates its own governing board and management. The County of Kern is not financially accountable for the District as it cannot impose its will on the District, and there is no potential for the District to provide financial benefits to, or impose financial burdens on, the County of Kern. Accordingly, the District is not a component unit of the financial reporting entity of the County of Kern.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Operating and Nonoperating Activities

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water sales. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Property Taxes

The District is authorized to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations, subject to certain limitations in the Water Code, the Revenue and Taxation Code, and the California Constitution.

Property taxes are levied annually by the District's Board of Directors as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments, which are due by December 1 and February 1. The taxes levied are billed and collected by the County of Kern and are remitted to the District throughout the year. Property taxes are recognized as revenues in the year for which they are levied.

D. Financial Reporting

The basic financial statements, which include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the related Notes to the Basic Financial Statements, report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related standards.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. At June 30, 2021, cash and cash equivalents include cash in banks.

F. Accounts Receivable

The District's historical annual experience of uncollectible accounts has been consistently small; therefore, any method used in calculating an allowance for uncollectible accounts results in an insignificant amount. Consequently, no provision for uncollectible accounts has been recorded; instead the District uses the direct charge off method for bad debts. The District generally reads the meters of the District's "metered" customers in the last week of the month and accounts for that revenue in the month the meter was read.

G. Inventory

Inventory consists principally of residential water meters, pipes, and fittings. Inventory is valued at the lower of cost or net realizable value using a first-in, first out (FIFO) inventory method.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the enterprise fund on the Statement of Net Position as nondepreciable or depreciable noncurrent assets. Capital assets are defined by the District as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Transmission and distribution	25-40 years
Source of supplies	25 years
General plant	5 years
Pumping equipment	25 years

I. Compensated Absences

Accumulated vacation benefits and sick leave are recorded as other current liabilities on the books of the District. The liability has been determined to be \$14,100 as of June 30, 2021.

J. Net Position

Fund equity for an enterprise fund is classified as net position and displayed in three components:

- *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- *Restricted net position* – Consists of net position with constraints placed on its use either by external groups, such as granters or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

K. Restricted Net Position

Amounts shown as restricted net position have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed. The District has no restricted net position at June 30, 2021.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. New Accounting Pronouncements – Implemented

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for the periods beginning after December 15, 2019. The District does not have fiduciary activities; as such, this standard did not have an effect on the basic financial statements.

GASB Statement No. 90 – *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for periods beginning after December 15, 2019. The District does not have these type of activities, as such, this standard did not have an effect on the basic financial statements.

N. Future GASB Statements

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for periods beginning after June 15, 2021. The District has not fully judged the effect of implementation of GASB Statement No. 87 as of the date of the basic financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for periods beginning after December 15, 2020. The District has not fully judged the effect of implementation of GASB Statement No. 89 as of the date of the basic financial statements.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for periods beginning after December 15, 2021. The District has not fully judged the effect of implementation of GASB Statement No. 91 as of the date of the basic financial statements.

GASB Statement No. 92 – *Omnibus 2020*. The requirements of this statement are effective for periods beginning after June 15, 2021. The District has not fully judged the effect of implementation of GASB Statement No. 92 as of the date of the basic financial statements.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The requirements of this statement are effective for periods beginning after June 15, 2021. The District has not fully judged the effect of implementation of GASB Statement No. 93 as of the date of the basic financial statements.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for periods beginning after June 15, 2022. The District will implement GASB Statement No. 94 if and where applicable.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for periods beginning after June 15, 2022. The District will implement GASB Statement No. 96 if and where applicable.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Future GASB Statements (Continued)

GASB Statement No. 97 – *Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment to GASB Statement No. 14 and 84 and a supersession of GASB Statement No. 32.* The requirements in paragraph 4 as it applies to defined contribution plans, defined contribution OPEB plans, and other employee benefit plans, and paragraph 5 are effective immediately. All other requirements are applicable for periods beginning after June 15, 2020. The District will implement GASB Statement No. 97 if and where applicable.

GASB Statement No. 98 – *The Annual Comprehensive Financial Report.* The requirements of this statement are effective for periods ending after December 15, 2021. Early application is encouraged. This statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The District does not prepare an annual comprehensive financial report, therefore, this standard does not apply.

NOTE 3 – CASH AND CASH EQUIVALENTS

The District’s cash and cash equivalents at June 30, 2021, consisted of:

Cash on Hand	\$	300
Deposits with Financial Institutions		645,040
 Total	 \$	 <u><u>645,340</u></u>

A. Policies and Practices

The California Government Code requires California banks and savings and loan associations to secure the District’s cash deposits by pledging securities as collateral. The Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of general creditor.

The fair value of pledged securities must equal at least 110 percent of the District’s cash deposits. California law also allows the institution to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of District’s total cash deposits. The District may waive collateral requirements for cash deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The District, however, has not waived the collateralization requirements.

B. Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District maintains its cash in a savings account and a checking account with California Bank and Trust. At June 30, 2021, the District’s bank balance of \$250,000 was insured, but \$439,482 was exposed to custodial credit risk because it exceeded the FDIC insured limits and was not collateralized with securities held by the pledging financial institution’s trust department or agent, and not in the name of the District.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 4 – ACCOUNTS RECEIVABLE

The District's accounts receivable as of June 30, 2021, were categorized as follows:

Ratepayers Accounts Receivable (Operating)	\$ 28,023
Grant Receivable (Nonoperating)	5,118
	<hr/>
Total	<u>\$ 33,141</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, is as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
	<hr/>	<hr/>	<hr/>	<hr/>
Nondepreciable Assets:				
Land	\$ 15,521	\$ -	\$ -	\$ 15,521
	<hr/>	<hr/>	<hr/>	<hr/>
Total Nondepreciable Assets	15,521	-	-	15,521
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciable Assets:				
Transmission and Distribution	1,020,470	58,405	-	1,078,875
Source of Supplies	162,288	2,586	-	164,874
General Plant	161,012	40,439	-	201,451
Pumping Equipment	80,109	3,933	-	84,042
	<hr/>	<hr/>	<hr/>	<hr/>
Total Depreciable Assets	1,423,879	105,363	-	1,529,242
	<hr/>	<hr/>	<hr/>	<hr/>
Less: Accumulated Depreciation:				
Transmission and Distribution	(768,527)	(28,741)	-	(797,268)
Source of Supplies	(98,575)	(5,124)	-	(103,699)
General Plant	(75,248)	(23,774)	-	(99,022)
Pumping Equipment	(40,440)	(3,281)	-	(43,721)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Accumulated Depreciation	(982,790)	(60,920)	-	(1,043,710)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Depreciable Assets, Net	441,089	44,443	-	485,532
	<hr/>	<hr/>	<hr/>	<hr/>
Total Capital Assets, Net	<u>\$ 456,610</u>	<u>\$ 44,443</u>	<u>\$ -</u>	<u>\$ 501,053</u>

Depreciation expense for the year ended June 30, 2021, was \$60,920.

NOTE 6 – ECONOMIC AND GEOGRAPHIC DEPENDENCY

The District relies upon ground water wells for its source of water supply. The loss of any of the larger wells could negatively impact the source of water supply and impair the District's operations. Any change in the availability of or demand for water in Lebec could negatively impact the District's operations.

**LEBEC COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 7 – RETIREMENT PLANS

Effective July 1, 2016, the District began sponsoring a SIMPLE Individual Retirement Account (IRA) with Wells Fargo Financial Services for employees. Employees meeting certain service requirements may contribute up to 100% of their compensation to the IRA, not to exceed \$6,000 annually. The District elected to contribute 2% of employee compensation regardless of employee contributions. The District contributions for the year ended June 30, 2021, were \$4,058.

NOTE 8 – SBA PAYCHECK PROTECTION PROGRAM

On April 30, 2020, the District received a loan in the amount of \$30,600 with an interest rate of 1.00% from California Bank and Trust. Maturity is two years from the date of the loan. This loan was made pursuant to the Small Business Administration's (SBA) Paycheck Protection Program (the "PPP" Loan) under the CARES ACT, as implemented by the Interim Final Rule. This PPP Loan was made to help businesses impacted by the economic impact from COVID-19. On May 7, 2021 the District received forgiveness of the entire \$30,600 balance of the PPP loan. For the year ended June 30, 2021, the District recognized the amount for \$30,600 as revenue.

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2021, the District's expenditures exceeded appropriations as follows:

<u>Appropriation Category</u>	<u>Excess Expenditures</u>
Transmission and Distribution	\$ 65,104
Depreciation Expense	12,530
Pumping	7,476
Interest Expense	69

NOTE 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 15, 2022, the date on which the financial statements were available to be issued. There were no other subsequent events identified by management which would require disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – BUDGET AND ACTUAL
(UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts	Actual	Variance with Final Budget
OPERATING REVENUES			
Water Revenues	\$ 420,237	\$ 403,738	\$ (16,499)
Fees and Permits	10,360	12,407	2,047
Total Operating Revenues	<u>430,597</u>	<u>416,145</u>	<u>(14,452)</u>
OPERATING EXPENSES			
General and Administrative	238,155	199,501	38,654
Transmission and Distribution	147,700	212,804	(65,104)
Depreciation Expense	48,390	60,920	(12,530)
Pumping	46,000	53,476	(7,476)
Total Operating Expenses	<u>242,090</u>	<u>526,701</u>	<u>(85,110)</u>
Operating Loss	<u>188,507</u>	<u>(110,556)</u>	<u>(99,562)</u>
NONOPERATING REVENUES			
Property Tax Revenue	46,450	50,827	4,377
Grant Revenue	145,564	-	(145,564)
PPP Loan Forgiveness	-	30,600	30,600
Interest Income	122	62	(60)
Total Nonoperating Revenues	<u>192,136</u>	<u>81,489</u>	<u>(110,647)</u>
NONOPERATING EXPENSES			
Grant Expense	145,686	-	145,686
Interest Expense	-	69	(69)
Total Nonoperating Expenses	<u>145,686</u>	<u>69</u>	<u>145,617</u>
Change in Net Position	234,957	(29,136)	(64,592)
Net Position - Beginning of Year	<u>1,221,599</u>	<u>1,221,599</u>	<u>1,221,599</u>
Net Position - End of Year	<u>\$ 1,456,556</u>	<u>\$ 1,192,463</u>	<u>\$ 1,157,007</u>

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED JUNE 30, 2021**

OPERATING REVENUES

Water Revenues	
Commercial Water Sales	\$ 196,715
Residential Water Sales	191,696
Surplus Water Sales	<u>15,327</u>
Total Water Revenues	<u>403,738</u>
Fees and Permits Revenues	
Late Charges	11,118
Service Charges	<u>1,289</u>
Total Fees and Permits Revenues	<u>12,407</u>
Total Operating Revenues	<u><u>\$ 416,145</u></u>

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021**

	Transmission and Distribution	General and Administrative	Pumping	Depreciation	Total
OPERATING EXPENSES					
Salaries and Wages	\$ 141,980	\$ 91,216	\$ -	\$ -	\$ 233,196
Supplies and Services	59,386	73,905	-	-	133,291
Utilities	-	2,164	53,476	-	55,640
Benefits	-	32,216	-	-	32,216
Repairs and Maintenance	11,438	-	-	-	11,438
Depreciation	-	-	-	60,920	60,920
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$ 212,804</u>	<u>\$ 199,501</u>	<u>\$ 53,476</u>	<u>\$ 60,920</u>	<u>\$ 526,701</u>

OTHER REPORT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Lebec County Water District
Lebec, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lebec County Water District (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 15, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations, that we consider to be significant deficiencies (2021-1 and 2021-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
February 15, 2022

**LEBEC COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2021**

2021-1 Preparation of Financial Statements

Condition: For convenience and efficiency, management relies on the external auditor to assist in preparing the financial statements. Brown Armstrong Accountancy Corporation (BAAC) assists in preparation and drafting the financial statements and footnotes for the District. Upon completion, a draft of the financial statements is submitted to the District's management for review and approval. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by BAAC in order to correct any material mistakes.

Criteria: A strong system of internal controls should include controls over the complete preparation of financial statements and footnote disclosures.

Effect: Reliance on external preparation of the financial statements could result in material omissions or other misstatements in the financial statements. BAAC assists with the preparation of the financial statements, which is a less effective control than performing the reporting function internally.

Cause: Management relies upon BAAC to draft the financial statements as a convenience to management.

Recommendation: We recommend that the District designate a member of management to prepare financial statements and footnote disclosures.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

2021-2 Lack of Credit Card Policy

Condition: During our analysis of the District's use of credit cards, we were unable to verify that the District had a written credit card agreement and usage policy in place for each cardholder.

Criteria: The District should create and implement a formal credit card policy to avoid the potential misappropriation of assets.

Effect: A policy should be created and enforced to prevent the improper use of credit cards, decreasing the motive to commit fraud.

Causes: The District currently does not have a credit card policy in place.

Recommendation: We recommend the District create a policy that lists the procedures and policies for credit card use, have it approved by the Board of Directors, and have each cardholder agree and sign the policy. The credit card policy should establish a limit for each purchase, proper use, allowable purchases, and the requirements for retaining and submitting receipts for processing.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

**LEBEC COUNTY WATER DISTRICT
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021**

2020-1 Preparation of Financial Statements

Condition: For convenience and efficiency, management relies on the external auditor to assist in preparing the financial statements.

Criteria: Brown Armstrong Accountancy Corporation (BAAC) prepared and drafted the financial statements and footnotes for the District. Upon completion, a draft of the financial statements is submitted to the District's management for review and approval. This service is performed as a convenience to management. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by BAAC in order to correct any material mistakes.

Effect: BAAC assisted with the preparation of the financial statements, which is a less effective of a control than performing the reporting function internally.

Cause: Management relies upon BAAC to draft the financial statements as a convenience to management.

Recommendation: We recommend that the District identify a member of management to take over the responsibility of financial reporting.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

Current Year Status: With only one staff member and a bookkeeper, management is unable to take over the responsibility of the preparation of the financial statements. Refer to 2021-1 Preparation of Financial Statements for our current year recommendation.

2020-2 Lack of Credit Card Policy

Condition: During our analysis of the District's use of credit cards, we were unable to verify that the District had a written credit card agreement and usage policy in place for each cardholder.

Criteria: The District should create and implement a formal credit card policy to avoid the potential misappropriation of assets.

Effect: A policy should be created and enforced to prevent the improper use of credit cards, decreasing the motive to commit fraud.

Causes: The District currently does not have a credit card policy in place.

Recommendation: We recommend the District create a policy that lists the procedures and policies for credit card use, have it approved by the Board of Directors, and have each cardholder agree and sign the policy. The credit card policy should establish a limit for each purchase, proper use, allowable purchases, and the requirements for retaining and submitting receipts for processing.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

Current Year Status: Management acknowledges the recommendation and is currently in the process of creating a credit card policy to implement in future fiscal years. Refer to 2021-2 Lack of Credit Card Policy for our current year recommendation.